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Facts About the New U.S. Coins

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THE AMERICAN BANKERS ASSOCIATION

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Facts About the New U. S. Coins

This booklet contains some pertinent questions and answers on the new United States coinage system adopted by Congress July 15 and signed into law by President Johnson on July 23. The booklet is adapted from an address by Reno Odlin, president of The American Bankers Association, delivered before the Washington Bankers Association Convention. Mr. Odlin is chairman of The Puget Sound National Bank, Tacoma, Washington.

Q. ***Why did Congress pass a law to eliminate silver from dimes and quarters and to reduce the silver content of half-dollars?***

A. Congress had no choice. There is a world-wide shortage of silver that is getting worse each year. During the last five years, the consumption of silver averaged 200 million troy ounces more than new production. In 1964 the gap between production and consumption was 335 million ounces. It is estimated that during 1965 consumption will outstrip production by about 440 million ounces.

Q. ***Why has there been such a big increase in the use of silver?***

A. Industrial uses of silver have been increasing rapidly. Silver is essential in the photography industry, since silver-based salts are used to reproduce images. Silver is also used widely in the electronics industry, and about one-fifth of private silver consumption goes into silverware and jewelry. As population and industry grow, demand for silver climbs. During 1964 industrial and artistic uses of silver both here and elsewhere in the free world totaled about 286 million ounces – 70 million ounces more than total new silver produced in the free world that year.

But the biggest rise in the use of silver is the result of the ever-increasing demand for coins. In 1960 the United States used about 46 million ounces of silver in minting new coins. In 1964 the Treasury used 203 million ounces. The 1965 figure will come to over 300 million ounces. Since the need for coins continues to grow each year, it is obvious that the United States soon would have found itself using far more silver for coinage alone than the total of all silver produced in the world. Such a situation would have produced a chronic coin shortage in the U.S. as soon as the Treasury's silver stocks were used up. To avoid any such development, the use of silver in the coinage is being reduced while the Treasury's stocks are still large.

Q. ***Couldn't the production of silver be stepped up in response to the increased demand?***

A. Unfortunately, no, because silver is usually produced as a by-product in the mining of other metals and even a very great increase in its price would not lead to a substantial increase in production.

Q. ***What have other nations done about the silver shortage?***

A. Most other countries have eliminated or drastically reduced the use of silver for coinage. In fact, Canada and Switzerland are the only nations in the world that have not eliminated silver from most of their coins. Over a five-year period —1960 through 1964 — the use of silver in coins by all countries of the world, except the United States, increased by only 3.6 million ounces, while our use of silver increased by 157 million ounces. Moreover, current indications are that Canada is considering a reduction in the silver content of her coins.

Q. ***If the world is currently consuming more silver than it is producing, where is the silver coming from?***

A. The difference between production and consumption is being supplied from the United States Treasury's huge stock of silver. In 1963 the Treasury's stockpile of silver stood at close to 2 billion ounces. It is now down to about a billion. At the present rate of consumption this stock would be wiped out in less than three years.

The Treasury, through the redemption of silver certificates, sells silver at $1.29+ per ounce. At this rate the silver content of a silver dollar is worth exactly $1.

Q. ***What would happen if the market price of silver went up?***

A. If the price of silver rose above $1.38 per ounce, it would become profitable to melt down coins and sell the silver content.

By reducing the amount of silver needed for coins, the Treasury can expect its stockpile to be adequate to maintain the price of silver at $1.29+ per ounce almost indefinitely. This will protect the present silver coinage because it will make melting of the coins for their silver content an unprofitable enterprise.

Q. ***What metals will be used as a substitute for silver?***

A. The dimes and quarters will have a copper-nickel alloy on the outside and a copper core. They will be composite coins, and the edges will show the copper middle layer. However, we are not abandoning silver altogether in the coinage. The new 50-cent piece will have a facing made of 80 per cent silver and 20 per cent copper. The core of the coin will be 21 per cent silver and 79 per cent copper. This combination will give us a half-dollar with 40 per cent silver content, compared to the present half-dollar which is 90 per cent silver.

Q. ***What will the new coins look like?***

A. The new dimes and quarters will have the same designs as the old ones and in terms of brilliance will look very much like our present nickels. However, the coins will show a copper ring. The new half-dollar will have the same design and will be almost indistinguishable from the half-dollar containing 90 per cent silver.

Q. ***Why were these particular metals selected?***

A. Copper and nickel are abundantly available, so shortages will not cause changes in the future. They are durable, so they will be able to stand the wear and tear that a coin is subjected to during its average circulating life of 25 years. In addition to meeting these tests, the metal makeup of the new coins meets another important criterion: These particular combinations of metals, in the proportions specified for the new coins, have the same electrical properties as do coins of 90 per cent silver. This will permit the new coins to be used in all coin-operated machines.

Q. ***Wouldn't a single metal or a single alloy be easier for coinage?***

A. Yes. However, no single metal or single acceptable alloy would do the job. Only the composite or sandwich type of coin could be engineered to duplicate the electrical properties of a coin containing 90 per cent silver.

Q. ***How widespread is the use of coin-operated machines?***

A. There are now about 12 million coin-operated machines and devices in the United States. They include pay telephones, Laundromats, cigarette machines and a wide variety of machines that dispense food and other items, and some 6 million of them have sophisticated coin selectors for detecting imitation coins and slugs.

If the substitute metal selected had electrical properties that varied greatly from those of a coin of nearly pure silver, the sensing devices would have to be changed – a process that would take about three years to complete. The public would suffer many inconveniences in attempting to operate machines that had not been adjusted.

Since the new coins and the old coins will circulate side by side, the public will not be inconvenienced because either type will operate the machines and devices.

Q. How will the public react to the new coins?

A. That, of course, is hard to predict. The new dimes and quarters will not have the same brilliance as the silver coins, and the public will have to get used to seeing the copper ring around the edge. But one aspect of the new coins is certain: They will have the same purchasing power as the silver coins. And, once the novelty has worn off, it is assumed that coinage will circulate without any problems.

Q. Will silver coins be hoarded once the new coins come out?

A. Some people may feel that the silver coins will eventually have some numismatic value to collectors. However, when you stop and think of the many billions of these coins now in circulation, it is obvious that it will be years and years before these coins have any value as collectors' items.

Q. Will people hoard coins for the silver, hoping that the price of silver will rise?

A. It is possible that speculators will attempt to accumulate large quantities of silver coins in the expectation that the price of silver will go up. Such speculators would be ignoring a few basic considerations.

First of all, since the Treasury will need very little silver for coinage, its stockpile can be used to keep the price of silver down. It will be many years before this supply is exhausted.

In the meantime, the speculators will be losing $35 to $40 per $1,000 on their coins each year. This is the amount of annual interest they would be earning if they put the money in a Government-insured savings account at a bank or invested it in U.S. savings bonds.

On top of this lost interest, the speculators would have to pay to have the coins protected in a vault or they would risk the loss of the coins through theft.

To recover these expenses and make a profit, the price of silver will have to rise sharply. Then the speculators could only make a profit by melting down the coins and selling the silver. The law passed by Congress gives the Treasury standby authority to prohibit the melting, exporting or treating of United States coins. There can be little doubt that, if speculation is evident, the Treasury will move quickly to prohibit melting of silver coins.

Q. ***What is Gresham's law that everyone is writing about?***

A. Gresham's law says, in effect, bad money drives good money out of circulation. Sir Thomas Gresham explained this principle to Queen Elizabeth in 1558. In those days it was common practice to take a coin and scrape off a few particles of silver. The coin was still accepted at face value although it contained less silver than when it was coined. By repeating this process with all coins, a person could accumulate a small supply of silver. Because of the practice of shaving coins, it was only natural that individuals would save the newer coins and spend the older ones that had been slightly debased.

Q. ***Will Gresham's law hamper our new coinage system?***

A. No. While this principle had universal application when all coins had an intrinsic value, it does not hold true when various coins have the same face value. For example, when cupronickel coins were introduced in Great Britain right after World War II, the older silver coins continued to circulate freely.

Since the Treasury will produce both types of coins during a transition period, it is reasonable to expect that both types will circulate side by side and keep the commerce of the United States flowing smoothly.

***Q.* When will the first supply of the new coins be put into circulation?**

A. The new quarter should appear early in 1966, or if seasonal demand for coins is extra heavy during the Christmas holidays, the Treasury may introduce it late this year. The San Francisco assay office, which has not been used for minting since 1955, is being brought back into use to make sure that enough minting facilities are available during the transition period.

The Treasury has indicated its intention of making 3.5 billion new coins during the fiscal year July 1, 1965, to June 30, 1966. This production figure is about 1.5 billion higher than the number of corresponding silver coins produced during the fiscal year ending June 30, 1965. During the second fiscal year of operations with the new coins – July 1, 1966, to June 30, 1967 – the Treasury will, if necessary, bring the total output up to 7 billion. President Johnson has indicated that the production schedule will be such that within a period of less than three years we could, if necessary, meet total coinage needs out of production of the new coins.

***Q.* Can the mints produce sufficient amounts of the new coins to meet our needs?**

A. During the 12-month period ending June 30, 1964, the mints produced a total of 4.3 billion coins. The following year, ending June 30, 1965, production was up to 7.2 billion. In the current fiscal year the mints plan to produce 11 billion coins, 3.5 billion of which will be the new coins. In the following year, production is estimated at 15 billion coins of which about 7 billion will be the new dimes, quarters and half-dollars. Such a production schedule will certainly meet our increasing coinage needs.

Q. What problems will there be during the transition to the new coinage system?

A. The Treasury does not expect any problems to complicate the changeover. However, this is the first major change in the United States currency system since President George Washington signed the Mint Act of April 2, 1792, so it is possible that something unforeseen might develop. For this reason, Congress has authorized President Johnson to establish a Joint Commission on the Coinage. Its membership will include the Secretary of the Treasury, the Secretary of Commerce, the Director of the Budget Bureau, the Director of the Mint, 12 members of Congress and eight members who will be appointed by the President to represent the public.

This commission will study the coinage situation and deal with any problems that crop up. It will advise the President, Congress and the Secretary of the Treasury on the results of the studies it undertakes on various aspects of our coinage system.

Q. What can American citizens do to make sure the transition to the new coinage system works smoothly?

A. First, they must understand that the nation faced a choice of having some new coins without silver or having an economy without enough coins to keep it working properly. That is not a difficult decision to make, and Congress wisely chose to eliminate silver from dimes and quarters and reduce the silver content of the half-dollars.

Once the background is understood and once it is apparent that the new coins will have the same purchasing power as the old ones, it is anticipated that Americans will use common sense and spend both types of coins freely.

With the new coins used side by side with the old ones during the transition period, there is no reason why the new coinage system cannot serve the country well for years and years to come.